

ANNUAL REPORT

December 31, 1946

J. C. PENNEY COMPANY
(A DELAWARE CORPORATION)

OPERATING 1601 RETAIL STORES



TO THE STOCKHOLDERS OF J. C. PENNEY COMPANY

March 21, 1947

This report for the year ending December 31, 1946, contains the Balance Sheet, Statements of Profit and Loss, and Earned Surplus of your Company and the accountants' Report thereon, together with Financial Statements of its wholly-owned subsidiaries.

SALES

The sales of the Company again reached a new record figure. The total for the year was \$676,570,117.03, as compared with \$549,149,147.67 for 1945. The increase in dollar sales was \$127,420,969.36 and the percentage of increase was 23.20%.

This sales increase did not result from an increase in the number of stores, as the actual stores in operation numbered 1601 on December 31st, one less than at the end of 1945. It is interesting to note that in the ten-year period from 1937 through 1946 the average volume of Penney stores has risen from \$182,597.35 to \$422,690.49.

FINANCIAL POSITION AND INVENTORIES

Cash on hand and in banks as of December 31st and Government securities totalled \$40,976,590.89. The merchandise inventory at the year end was \$136,452,433.90. The comparable figures for the preceding year were: Cash and Government securities \$95,741,722.71 and merchandise inventory \$75,245,472.07. In previ-

ous annual reports we have noted that during the years 1944 and 1945 inventories were low, both in relation to the current rate of sales and to anticipated volume. The increased inventory during 1946 was reflected in the increase in sales volume of over \$127,000,000.00 and was more nearly normal for the Company's current volume of business.

PROFITS AND DIVIDENDS

Net profits for 1946 amounted to \$35,491,565.35 or \$4.31 per share on each of the 8,231,952 shares of outstanding common stock. The comparable figures in 1945 were \$17,367,825.56, or \$2.11 per share.

Dividends paid during the year amounted to \$2.70 per share. These included two quarterly dividends of 35¢ per share, two of 50¢ per share and a year-end dividend of \$1.00. After the payment of these dividends, \$13,268,294.95 was added to the surplus account for the development and further growth of our Company's business.

MERCHANDISE IN A TRANSITION PERIOD

The merchandise situation in 1946 was influenced by the transition from a war-time economy to peace-time conditions. Certain items that had practically disappeared from retail counters began to find their way back into stores. Even at the year end, however, there was still a shortage of other items. A number of lines showed improved quality and greater value for the customer. In other lines, controls had been so rigid that price advances by the manufacturers were necessary and justified in order to secure production. In other words, the pattern was neither uniform nor general.

The period of transition is not yet complete. For that reason the attention of management, particularly during the latter months of the year, was directed toward the maintenance of clean, salable stocks and the procurement of desirable merchandise. This, of course, is one of the most important phases of retail operation in the period ahead. The Penney Company has always operated on the basis of a high degree of decentralization and of placing a large measure of responsibility in the hands of its local store managers. Our experience has proved the fundamental soundness of this policy. Since the earnings of Penney managers are directly dependent on the results obtained in their stores and since they are in immediate contact with consumers, the Company is in an excellent position to sense changing conditions and to deal with them as they develop.

NEW OR ADDITIONAL MERCHANDISE LINES

One of the questions most frequently asked about the Company during the past year has been as to plans for broadening the lines of merchandise carried. The Company has usually been described as a group of Junior Department stores dealing largely in what people wear and in piece goods and furnishings. As the stores of the Company have grown in size and as larger units have been operated in metropolitan areas these lines have been broadened. For a period of ten years or more experiments have been conducted in housewares departments. A number of stores have such departments, of various sizes, in operation today. We believe they offer an opportunity for a considerable increase in volume. The present plans of the Company, moreover, call for no radical developments in the type of merchandise carried. Broadly speaking, the selection of merchandise is controlled by the fundamental policies on which this business has been built: of selling on a cash-and-carry basis and of avoiding the expense of service departments necessary to the satisfactory sale and installation of some items.

IMPROVEMENTS AND EXPANSION

During the war years there was, necessarily, a check and almost a halt on expansion and improvement. This condition has not radically changed. As conditions permit, we have plans for the improvement and enlargement of a considerable number of our present locations. The modernization program which was interrupted by the war will be carried forward. In the judgment of management, today's conditions do not make for the favorable negotiation of leases on new locations. The Company, however, is fortunate in its present wide coverage of retail centers and we are looking forward to further expansion in the number of stores, as well as to the improvement of existing units.

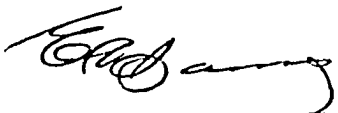
NUMBER OF STOCKHOLDERS

During the past year there was a substantial increase in the number of Penney stockholders. In December, 1945, the total was 20,851. In December, 1946, it was 24,471. Of this number nearly half, or 11,730, were women. This is particularly interesting because of our type of business and because women generally do so much of the shopping for their families.

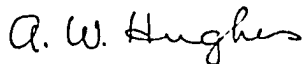
COMPANY PERSONNEL

Reference has already been made in this letter to the basic Penney principle of giving men responsibility and of rewarding them on the basis of results produced. This was the principle on which Mr. J. C. Penney founded this Company in 1902. It has been a constant and determining factor in the development of this business and in its progress. We would like to re-emphasize the importance of this basic Company principle and, at the same time, to express appreciation for the manner in which the management staff and the many thousands of other Penney associates—both in the stores and in the central and branch offices—have discharged their responsibilities. Throughout the Company there is, we feel, a spirit of loyalty, of cooperation, and of personal interest in the Company that augurs well for the future.

It is a pleasure and an inspiration to receive continual evidence of this spirit in contacts with our associates and in letters from customers and stockholders who take the time to comment on their experiences in Penney stores and with Penney associates. This is particularly reassuring as we in the retail business turn from a period of "scarcity and demand" to a condition where personal selling effort and friendly service to every customer reassume their vital importance.



Chairman of the Board

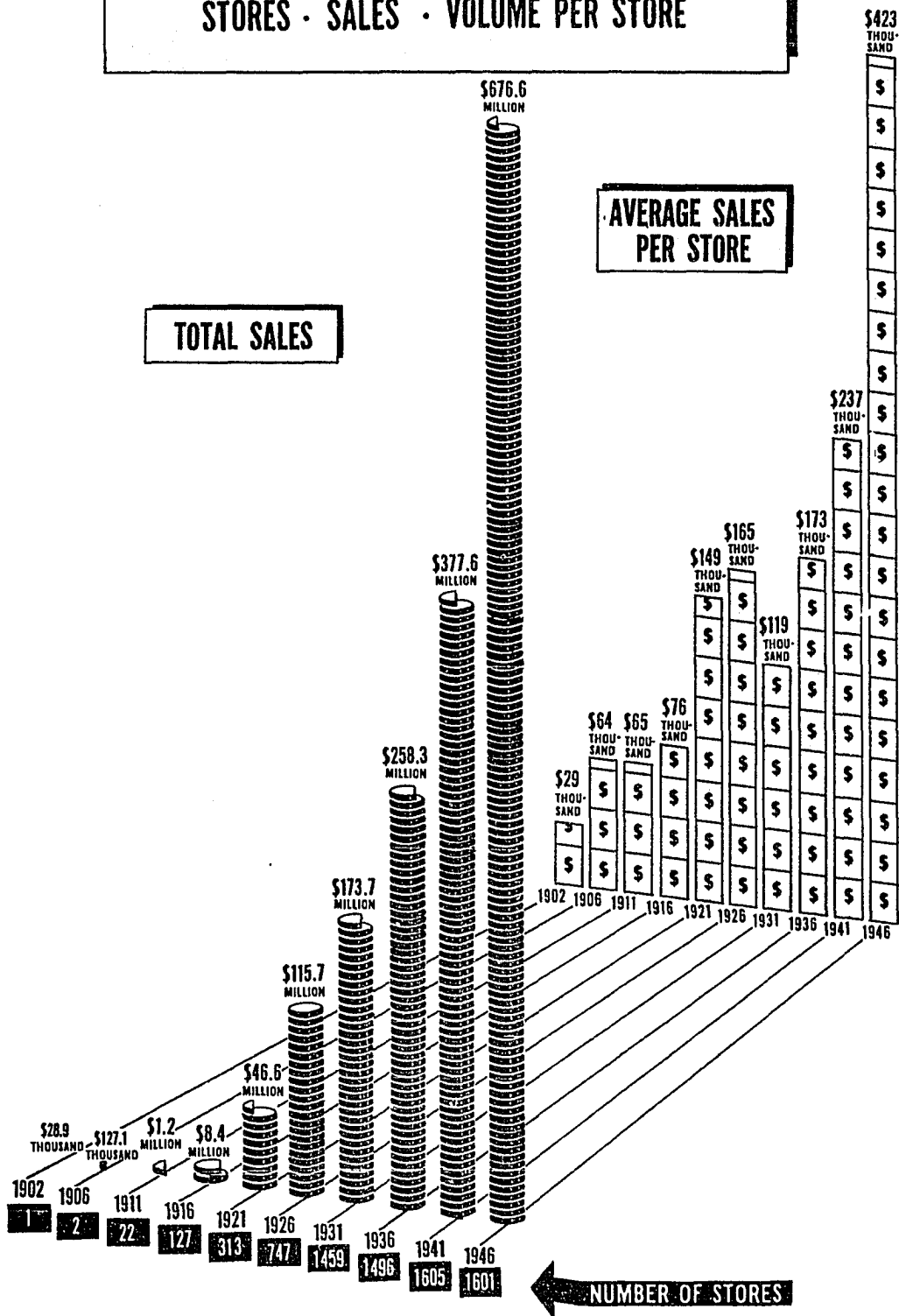


President

The Annual Meeting of Stockholders will be held on April 21st, 1947. A proxy statement, with a request for proxies, will be mailed to stockholders on or about March 28. It will be appreciated if you give your prompt attention to the Proxy Statement and Proxy when received.

45 YEARS OF STEADY GROWTH

STORES · SALES · VOLUME PER STORE



American shoppers throng Penney stores -by the million!





Opening of the New
Visalia, California, Store —
Fall 1946

J. C. Penney Company

(A Delaware Corporation)

BALANCE SHEET

As of December 31, 1946

ASSETS

CURRENT ASSETS:

Cash in banks and on hand	\$ 40,951,490.89
U. S. Government securities—at cost	25,100.00
Accounts receivable—trade and miscellaneous	1,351,996.61
Merchandise (Note)	136,452,433.90
Total Current Assets	178,781,021.40

Investments in and Advances to Subsidiary Companies (including undistributed surplus)—at amounts as shown by subsidiaries' balance sheets:

Advances	\$ 4,402,500.00	
Capital stock and surplus	2,269,201.65	6,671,701.65

Fixed Assets, at not in excess of cost, less provision for depreciation:

Land	2,176,057.58	
Buildings	\$2,176,663.52	
Less Reserve for depreciation	662,150.79	1,514,512.73
		3,690,570.31
Furniture and fixtures, less provision for depreciation	10,945,919.30	
Improvements to leaseholds, less amortization	1,278,271.19	15,914,760.80

Deferred Charges—Unexpired Insurance Premiums, Rent Advances, etc.

602,005.28

\$201,969,489.13

Note: Inventories are stated at the lower of cost or market determined as follows:

Merchandise in stores—lower of cost or market determined by the retail method. Stocks in warehouses and with manufacturers, including raw materials shipped to manufacturers—cost determined by the first-in first-out method and market on the basis of replacement cost.

J. C. Penney Company

(A Delaware Corporation)

BALANCE SHEET

As of December 31, 1946

LIABILITIES

CURRENT LIABILITIES:

Accounts payable and accrued liabilities	\$ 61,579,351.18
Provision for Federal income taxes	21,629,421.34
Total Current Liabilities	<u>83,208,772.52</u>

Reserve for Fire Losses, Etc., and Employees' Death Benefits	2,960,264.46
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Common Stock, no par value:

Authorized, 9,000,000 shares.

Outstanding, 8,231,952 shares	34,122,766.67
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Surplus (Earned):

J. C. Penney Company	\$79,458,483.83
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Undistributed surplus of subsidiaries	<u>2,219,201.65</u>	81,677,685.48
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\$201,969,489.13

ACCOUNTANTS' REPORT

To the Board of Directors,
J. C. Penney Company,
New York, N. Y.

We have examined the balance sheet of the J. C. Penney Company as of December 31, 1946 and the statements of profit and loss and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the company and, without making a detailed audit of the transactions, have examined or tested accounting records of the company and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying balance sheet and related statements of profit and loss and surplus present fairly the position of the J. C. Penney Company at December 31, 1946 and the results of its operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.

New York, N. Y.,
March 21, 1947.

J. C. Penney Company

STATEMENT OF PROFIT AND LOSS

For the Year ended December 31, 1946

(Including profits of subsidiaries)

Sales		\$676,570,117.03
Cost of Merchandise Sold, and Selling and General Expenses (exclusive of items specifically set forth below)	\$609,570,512.86	
Maintenance and Repairs	1,700,874.32	
Depreciation and Amortization	1,702,184.65	
Taxes, other than Income Taxes	4,582,766.50	
Company Contributions to Retirement Plans	3,354,675.88	620,911,014.21
		<u>55,659,102.82</u>
Discount on Purchases, Interest Received and Miscellaneous Income (net)		1,774,903.91
Profit before Provision for Income Taxes		57,434,006.73
Provision for Income Taxes:		
Federal normal income tax and surtax	21,625,000.00	
Other income taxes	685,000.00	22,310,000.00
		<u>35,124,006.73</u>
Add 1946 Profits of Subsidiaries		370,558.62
Transferred to Surplus		<u>\$ 35,494,565.35</u>

Note:

Common stock outstanding at end of year	Shares	8,231,952
Earnings per share of common stock		<u>\$4.31</u>

STATEMENT OF EARNED SURPLUS

Surplus at December 31, 1945	\$ 68,409,390.53
Net Income for 1946	35,494,565.35
	<u>103,903,955.88</u>
Cash Dividends on Common Stock	22,226,270.40
Surplus at December 31, 1946	<u>\$ 81,677,685.48</u>

Alabama	12
Arizona	18
Arkansas	18
California	139
Colorado	48
Connecticut	6
Delaware	2
Florida	19
Georgia	17
Idaho	35
Illinois	49
Indiana	52
Iowa	68
Kansas	77
Kentucky	21
Louisiana	11
Maine	9
Maryland	5
Massachusetts	10
Michigan	52
Minnesota	63
Mississippi	19
Missouri	49
Montana	36
Nebraska	51
Nevada	7
New Hampshire	3
New Jersey	4
New Mexico	17
New York	32
North Carolina	31
North Dakota	33
Ohio	61
Oklahoma	49
Oregon	42
Pennsylvania	58
Rhode Island	1
South Carolina	13
South Dakota	27
Tennessee	21
Texas	119
Utah	30
Vermont	5
Virginia	13
Washington	61
West Virginia	12
Wisconsin	54
Wyoming	22

J. C. PENNEY COMPANY

A DELAWARE CORPORATION

OFFICERS

J. C. PENNEY
Honorary Chairman of the Board

E. C. SAMS
Chairman of the Board

A. W. HUGHES
President

G. E. MACK
3rd Vice-President and Treasurer

W. A. REYNOLDS
Executive Vice-President

A. J. RASKOPF
Secretary

F. W. BINZEN
2nd Vice-President

R. C. WEIDERMAN
Comptroller

DIRECTORS

J. C. PENNEY, *Honorary Chairman*

E. C. SAMS, *Chairman*

J. I. H. HERBERT

E. A. ROSS

G. H. BUSHNELL

A. W. HUGHES

L. W. HYER

F. W. BINZEN

W. A. REYNOLDS

F. A. BANTZ

J. F. BROWN

